



CORPORATE GOVERNANCE PRACTICES OF RUSSIAN COMPANIES

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When the Russian Corporate Governance Code was introduced last year, it was an indication of the progress that had been made to elevate Russian corporate governance standards to the levels expected by international investors. However, much work remains to be done if Russia is to take full advantage of the benefits of globalization. The Russian Institute of Directors (RID) was created, to help monitor and improve the dynamics of corporate governance practices of Russian companies.

RID's monitoring and analysis of Russian corporate governance practices since 1999 has identified several significant areas of progress. The most visible is greater disclosure and transparency. In mid-2000, Tempest Consultants of the UK conducted a survey of the quality of Investor Relations (IR) policies in 27 emerging market countries. Russian oil companies like Sibneft, Surgutneftegaz, LUK oil and TNK, for example, ranked highly in 11 of 13 criteria, including "depth and clarity of information provided to investors, quality of information provided at one-to-one meetings and quality of information provided through corporate websites."

Russian corporate annual and quarterly reports are also disclosing more details about financial and non-financial company performance, though the latter data tends to be more extensive. A growing number of major Russian companies are producing their reports in accordance with International Accounting Standards (IAS) and Generally Accepted Accounting Principles (GAAP). The decision by the Russian government to require the use of IAS starting in 2004 is expected to bring much more transparency into the Russian corporate community at large, at least in terms of financial disclosure. The trend towards greater corporate transparency can also be seen on the websites of many companies that are becoming more investor friendly.

Dmitry Vasiliev, Executive Director of the Institute of Corporate Law and Corporate Governance (ICLG) and the former head of the Federal Security Commission, has been a staunch advocate for minority shareholder rights and a relentless critic of large Russian companies. However, his institute recently gave Russian "blue chip" companies high marks for their transparency and disclosure practices. Starting in 2003, companies will be required to disclose their corporate governance practices to comply with the Russian Corporate Governance Code. Russian corporations have also made significant progress in terms of preparing and conducting annual shareholder meetings and keeping shareholders better informed about their rights to attend and vote at these meetings.

Corporate governance procedures in company internal documents have also improved. The Russian Corporate Governance Code recommends that all joint stock company bylaws should include: a shareholder's general meeting statute, a board of directors' statute, a board committees' statute, a CEO (Management Board) statute, a company secretary statute, an audit commission statute, a financial control service statute, an internal audit service statute, a dividend policy declaration and a company information policy declaration. With these bylaws

in place, shareholders will now have a better understanding of how decisions are made within a company.

Finally, the number of independent directors has been gradually growing. During corporate shareholder meetings held in 2002, outside (independent) directors were elected to the boards of more than 70 leading Russian companies. The United Machinery Plant (OMZ) became the first Russian company to have a majority of its board made up of independent directors.

In 2002, the two largest Russian oil companies, Yukos and LUK oil, who rank first and third in market capitalization on the Russian stock market, revealed their ownership structure and identified the exact amounts of shares owned by their top managers. They were joined by Vadim Yevtushenkov, president of AFK Systema, a major holding company. The owners of Wimm-Bill-Dann, the leading Russian food company, also revealed its company ownership structure, thus setting the example for other companies in the industry. Even a traditionally closed businessman, like the young Russian oligarch, Oleg Deripaska, president of Russian Aluminum (now – Basic Element), registered his most recent major acquisition, a large share in Ingosstrakh insurance company, in Russia and not in an offshore company, as is often the case.

Despite these achievements, the Russian corporate community still faces the need for dramatic improvements in a number of very important areas such as disclosure of ownership structure, clear rules for mergers and acquisitions, reorganizations, dividend payments, board composition, independence and effective practices.

The Russian Institute of Directors (RID) is a new organization representing leading Russian companies and dedicated to improving the image of Russia and Russian business in the international business community. RID works with, and is supported by, the Federal Commission on the Securities Market, the Ministry of Property Relations, and the Russian Federal Property Fund. RID has also received support from the World Bank, the International Financial Corporation, the Center for International Private Enterprise, the U. S. Department of Commerce, the Russo-British Chamber of Industry and Commerce, and the UK Institute of Directors.

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